MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
Development Stage Company)

FINANCIAL STATEMENTS

Year Ended December 31, 2008
And the Period October 15, 2003 (Date of
Inception), to December 31, 2008

Mayer Hoffman McCann P.C.
An Independent CPA Firm

ACCOUNTANTS' COMPILATION REPORT

To the Members
Millennium Transit Services, LLC
Roswell, New Mexico

We have compiled the accompanying balance sheet, of Millennium Transit Services, LLC (a debtor-in-possession development stage company) as of December 31, 2008, and the related statements of operations, changes in members' deficit and cash flows for the year ended December 31, 2008 and for the period from October 15, 2003 (Date of Inception), to December 31, 2008 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

As discussed in Note 2, on August 29, 2008, the Company filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code and was authorized to continue managing and operating the business as a debtor in possession subject to the control and supervision of the Bankruptcy Court. Those conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Company be unable to continue as a going concern.

Mayer Hoffman McCann, P.C.

Denver, Colorado
May 14, 2009

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MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
Development Stage Company)

BALANCE SHEET

December 31, 2008

	2008
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 28,268
Accounts receivable, net	2,708
Inventory	14,229,318
Other current assets	268,235
TOTAL CURRENT ASSETS	14,528,529
PROPERTY, PLANT, AND EQUIPMENT at cost, net of accumulated depreciation and amortization	2,883,147
OTHER ASSETS	
Loan fees and license agreement, net of accumulated amortization	124,782
TOTAL ASSETS	$ 17,536,458
LIABILITIES	
LIABILITIES NOT SUBJECT TO COMPROMISE	
CURRENT LIABILITIES	
Accrued liabilities -	
Reserve for warranty claims	$ 89,060
Other	38,136
LIABILITIES SUBJECT TO COMPROMISE	41,344,029
TOTAL CURRENT LIABILITIES	41,471,225
ACCRUED MAINTENANCE AGREEMENT	1,000,000
MEMBERS' DEFICIT	
Capital contributed	2,070,900
Deficit accumulated in the development stage	(27,005,667)
TOTAL MEMBERS' DEFICIT	(24,934,767)
TOTAL LIABILITIES AND MEMBERS' DEFICIT	$ 17,536,458

See Notes to Financial Statements and Accountants' Compilation Report

MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
Development Stage Company)

STATEMENTS OF OPERATIONS

For the Year Ended December 31, 2008
and the Period October 15, 2003 (Date of Inception),
to December 31, 2008

	2008	October 15, 2003 (Inception) to December 31, 2008
REVENUES	$ 7,373,683	$ 16,341,474
COST OF REVENUES	8,847,873	23,628,437
GROSS MARGIN	(1,474,190)	(7,286,963)
GENERAL AND ADMINISTRATIVE EXPENSES	1,131,606	10,546,181
LOSS FROM OPERATIONS	(2,605,796)	(17,833,144)
OTHER INCOME (EXPENSE)		
Interest income	52	3,984
Rental income	-	59,892
Loss on disposal of property, plant and equipment	-	(17,129)
Other income	-	36,743
Maintenance fee income	-	6,000
Interest expense	(3,475,946)	(9,226,959)
TOTAL OTHER INCOME (EXPENSE)	(3,475,894)	(9,137,469)
LOSS BEFORE REORGANIZATION ITEMS	(6,081,690)	(26,970,613)
REORGANIZATION ITEMS		
Professional fees	37,822	37,822
Interest income	(2,768)	(2,768)
TOTAL REORGANIZATION ITEMS	35,054	35,054
NET LOSS	$ (6,116,744)	$ (27,005,667)

See Notes to Financial Statements and Accountants' Compilation Report

MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
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STATEMENT OF CHANGES IN MEMBERS' DEFICIT

For the Year Ended December 31, 2008
and the Period October 15, 2003 (Date of Inception),
to December 31, 2008

	Managing Member	Other Member	Total
Balance, October 15, 2003 (Date of Inception)	$ -	$ -	$ -
Contributions	2,003,900	67,000	2,070,900
Net loss (Date of Inception to December 31, 2007)	(18,489,139)	(2,399,784)	(20,888,923)
Balance at December 31, 2007	(16,485,239)	(2,332,784)	(18,818,023)
Net loss	(5,841,491)	(275,253)	(6,116,744)
Balance at December 31, 2008	$ (22,326,730)	$ (2,608,037)	$ (24,934,767)

MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
Development Stage Company)

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2008
and the Period October 15, 2003 (Date of Inception),
to December 31, 2008

	Year ended December 31, 2008	October 15, 2003 (Date of Inception) to December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,116,744)	$ (27,005,667)
Adjustments to reconcile net loss to net cash provided from operating activities:		
Depreciation and amortization	302,184	879,401
Unpaid accrued interest added to subordinated debt	3,142,212	6,775,858
Loss on disposal of property and equipment	-	17,129
(Increase) decrease in -		
Accounts receivable	25,860	(2,708)
Inventory	6,334,431	(13,229,318)
Other assets	17,234	(268,235)
Increase (decrease) in -		
Accounts payable	(896,999)	5,150,557
Accrued liabilities	(104,681)	127,196
Liabilities subject to compromise	(112,000)	(112,000)
Customer deposits	(6,608,010)	-
NET CASH FROM OPERATING ACTIVITIES	(4,016,513)	(27,667,787)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(551,956)
CASH FLOWS FROM FINANCING ACTIVITIES		
Post-petition proceeds from secured indebtedness to member	732,998	732,998
Pre-petition principal payments on long-term debt	(1,760,526)	(8,726,350)
Pre-petition proceeds from subordinated debt payable to member	5,141,016	29,223,466
Pre-petition proceeds from revolving credit agreement	-	7,300,000
Pre-petition repayment of subordinated debt payable to member	(252,945)	(3,503,723)
Pre-petition principal payments on capital lease liability	-	(5,912)
Pre-petition proceeds from long-term debt	-	1,156,632
Pre-petition capital contributions	-	2,070,900
NET CASH FROM FINANCING ACTIVITIES	3,860,543	28,248,011

See Notes to Financial Statements and Accountants' Compilation Report

MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

	Year ended December 31, 2008	October 15, 2003 (Date of Inception) to December 31, 2008
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(155,970)	28,268
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR/PERIOD	184,238	-
CASH AND CASH EQUIVALENTS, END OF THE YEAR/PERIOD	$ 28,268	$ 28,268

See Accountants' Compilation Report

MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations - Millennium Transit Services, LLC (the Company), was organized in 2003. The Company manufactures and sells advanced transportation products for transit authorities and municipalities across the United States as well as internationally.

Development stage operations - The limited liability company was formed October 15, 2003 by four members. During 2005 an additional member was added by additional contribution of capital and acquisition of the interest of one of the original members.

Development stage operations include contract procurement, engineering and design, and production of prototypes.

Ownership interest and operating agreement - The Company's members and their respective sharing interests in the Company's capital and profits and losses as of December 31, 2008 are as follows:

Managing member	95.50%
Others	4.50%

Member distributions are governed by the operating agreement of the Company. The operating agreement provides for a quarterly tax distribution to members to pay their Federal and state income taxes due on their respective shares of the taxable income of the Company. To date, there have been no tax distributions. In addition, the liability of the members of the Company is limited to the members' total capital contributions.

The operating agreement of the Company provides that the members have no further obligation to contribute additional amounts of capital to the Company. If the Company requires additional funds, the Manager may call for an additional contribution. Each member has the right to contribute a pro rata share of such additional funds, based on the relative percentage interest. In addition, the liability of the members of the Company is limited to the members' total capital contributions.

Fair value of financial instruments - The Company's financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The fair values of these financial instruments approximates their carrying amounts based on current market indicators, such as prevailing interest rates, liquidity and the nearness to their maturity.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Long-lived assets - Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying

MILLENNIUM TRANSIT SERVICES, LLC
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NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Long-lived assets (continued) - amount of an asset may not be recoverable. Impairment, which is determined based upon the estimated fair value of the asset, is recorded when estimated undiscounted cash flows expected to be generated by the asset is insufficient to recover its net carrying value. The Company has not experienced any impairment as of December 31, 2008.

Cash and cash equivalents - The Company considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Accounts receivable - Accounts receivable from sales are based on contract prices and are due according to the terms of the contract. The Company provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables more than 120 days past due are considered delinquent. Delinquent receivables may be reserved or written-off based on individual credit evaluation and specific circumstances of each customer. As of December 31, 2008 the Company has no reserves as allowance for doubtful accounts.

Inventory - Inventory is valued at the lower of cost or market. Cost is based on a weighted average of purchase prices. Inventories include raw materials, work-in-process and finished goods. Labor and manufacturing overhead are allocated to inventory on the basis of the time required for production.

SFAS No. 151, "Inventory Costs", requires that allocation of fixed production overheads to the costs of conversation be based on the normal capacity of the production facilities. Thus, amounts of idle facility expenses during the development stage have been treated as period expenses.

Property, plant and equipment - Property, plant and equipment is stated at cost. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance are expensed in the period incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation and amortization are removed from the accounts and any gain or loss is included in income.

Depreciation and amortization of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Assets	Useful Lives
Building	39
Manufacturing equipment	7 - 10
Office furniture and equipment	3 - 7
Software	3 - 5
Equipment under capital lease	Term of lease

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Loan fees - Loan fees are recorded at cost. The loan fees are amortized over the term of the related loan on a straight-line basis, which approximates the effective interest method. For the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 amortization of loan fees as interest expense totaled $36,414 and $92,173, respectively.

The future estimated amortization expense of the Company's loan fees is as follows:

Years Ending December 31,	
2009	$ 32,500
2010	15,400
2011	15,400
2012	15,400

Revenue recognition - Revenue is recognized in the financial statements on an accrual basis based on the transfer of ownership as defined in the contract terms.

Research and development expenses - Research and development expenses are charged to operations as they are incurred.

Advertising costs - Advertising costs, which are included in general and administrative expense, are expensed as incurred. For the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 advertising costs totaled $0 and $62,675, respectively.

Accounting for income taxes - Generally, income taxes are not provided because the Company is taxed as a partnership. As such, the Company's items of income, loss, deduction and credit are passed through to the members and reported on their respective income tax returns. The Company consults with third party consultants to review their current tax filings and evaluate for uncertain tax positions.

Accounting for reorganization under the bankruptcy code – As described in Note 2 below, the Company has filed petitions for relief under Chapter 11 of the federal bankruptcy laws. As such, the Company follows Statement of Position 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code."

Sales tax – As most of the Company's sales are to municipalities and other non-taxable entities, the Company does not collect and remit sales taxes on sales.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

(1) Summary of significant accounting policies (continued)

Recent accounting pronouncements - In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes — an Interpretation of SFAS Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then valued to determine the amount of benefit to be recognized in the financial statements.

In December 2008, FASB Staff Position ("FSP") 48-3 deferred the effective date of FIN No. 48. This FSP defers the effective date of FIN No. 48 for certain nonpublic enterprises for fiscal years beginning after December 15, 2008, early adoption is permitted. As of December 31, 2008, the Company has deferred the application of this FSP and the corresponding FIN No. 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The Company does not anticipate the adoption of FIN No. 48 will have a material effect on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, FSP 157-2, "Effective Date of FASB Statement 157" was issued. FSP 157-2 applies to nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). Accordingly, this FSP defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of the FSP. The provisions of this standard are not expected to have an impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS No. 159 beginning January 1, 2008 which did not have a material impact on its results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Recent accounting pronouncements - period beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 141(R) applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including combinations achieved without the transfer of consideration. The provisions of this standard are not expected to impact the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". SFAS No. 160 amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 shall be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. It shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially adopted, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The provisions of this standard are not expected to impact the Company's financial statements.

(2) Reorganization under bankruptcy proceedings and going concern

In August 2008, the Company (the "Debtor") filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of New Mexico ("Bankruptcy Court"). Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-possession. These claims are reflected in the December 31, 2008 balance sheet as "liabilities subject to compromise." Additional claims (liabilities subject to compromise) may arise subsequent to the filing date resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Debtor's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Debtor's property, plant, and equipment. The Debtor received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages and product warranties.

As of December 31, 2008, the Debtor has not submitted a plan of reorganization (the "Plan") for Bankruptcy Court confirmation. Management of the Company is developing the Plan to obtain public and or private financing to refinance the current debt as well as satisfy the aged accounts payables.

NOTES TO FINANCIAL STATEMENTS

(2) Reorganization under bankruptcy proceedings and going concern (continued)

The ability of the Company to continue as a going concern is dependent on confirmation of the Plan by the Bankruptcy Court as well as the success of contract negotiations with potential customers. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

(3) Inventory

At December 31, 2008, inventory consists of the following:

Raw materials	$ 13,445,986
Work-in-process	783,332
Finished goods	-
Total Inventory	$ 14,229,318

(4) Property, plant and equipment

On December 15, 2003, the Company acquired business assets for an aggregate purchase price of $4,125,000. In accordance with SFAS 141 "Business Combinations", the net excess of the fair value of the acquired net assets over the cost of the assets has been allocated as a pro rata reduction of fair values, except for current assets which are reported at cost. The fair market value of the equipment is based on the 2003 purchase price. The building fair market value is based on an appraisal. The Company has not identified any impairment of the assets purchased.

The purchase price was allocated as follows:

Asset	Fair market value	Allocated Purchase Price
Inventory	$ 1,000,000	$ 1,000,000
Building	$ 5,400,000	$ 1,997,041
Manufacturing equipment	3,000,000	1,109,467
Software	25,000	9,246
License agreement	25,000	9,246
	$ 8,450,000	$ 3,125,000

(4) Property, plant and equipment (continued)

At December 31, 2008 property, plant and equipment consists of the following:

December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Building	$ 1,997,041	$ (260,298)	$ 1,736,743
Manufacturing equipment	1,336,260	(322,922)	1,013,338
Office furniture and equipment	180,403	(117,443)	62,960
Software	188,254	(124,702)	63,552
Equipment under capital lease	17,098	(10,544)	6,554
	$ 3,719,056	$ (835,909)	$ 2,883,147

For the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 depreciation and amortization expense totaled $265,110 and $842,327, respectively, of which $195,919 and $583,880 was allocated to cost of goods sold, respectively.

(5) License agreement

On December 15, 2003, in conjunction with the acquisition of the business assets, the Company purchased the right to use certain manufacturing equipment. The license agreement is related to the maintenance agreement as described in Note 8. The license agreement is amortizable over 14 years. For the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 amortization expense of the license agreement totaled $660 and $3,357, respectively. The estimated amortization expense of the Company's loan fees for each of the next five years is $660 per year.

(6) Warranty

The Company generally warrants components manufactured by the Company for up to twelve years. The warranty reserve is estimated based on the Company's warranty policy, applicable contractual warranty obligations, an analysis of historical costs and management's expected claims as well as specific vendor warranties to be purchased on behalf of the customer. Certain components manufactured by suppliers offer addition warranty provisions. Any claims against these components are reimbursed directly by the suppliers under the warranty period.

(7) Liabilities subject to compromise

At December 31, 2008, liabilities subject to compromise consist of the following:

Debtor-in-possession loan	$	732,998
Note payable		3,065,687
Accounts payable		5,015,346
Accrued interest		23,211
Capital lease payable		11,186
Subordinated related party debt		32,495,601
Total liabilities subject to compromise	$	41,344,029

The amount classified as debtor-in-possession loan above consists of an agreement with the bankruptcy court to authorize the Company to incur post-petition secured indebtedness which is senior to certain existing liens. Management files debtor-in-possession financing motions to obtain additional financing needs to remain in business while the Company seeks new bus manufacturing contracts. The financing is provided by the managing member of the Company as a revolving credit facility and accrues interest at 10%, compounded monthly, prior to acceleration or maturity. If any amounts under the revolving credit facility are not paid when due they shall accrue interest at 12% compounded monthly. The revolving credit is secured by all assets of the Company. The debt matures the earlier of a confirmation of a plan of reorganization, conversion or dismissal of the bankruptcy case, or entry of an order approving sale of a substantial portion of the Company's assets. Interest accrued on the debtor-in-possession loan totaled $23,211 and is included above as accrued interest.

The amount classified as note payable above consists of a note payable to Pioneer Bank. The note was amended on October 27, 2008 to allow the Company to pay interest only payments totaling $17,050 per month plus 25% of any sales price of inventory. The note matures September 2014 and is personally guaranteed by the Company's minority members, collateralized by the Company's bank accounts, accounts receivable, inventory, a building and manufacturing equipment. Per the terms of the loan agreement associated with the note payable, the Company is required by covenant ("covenant") to maintain cash and accounts receivable in excess of all current liabilities. The Company is also subject to several other covenants specified in the agreement. At December 31, 2008, the Company was in breach of the covenant. The bank has not waived the covenant requirement and, at its option, may give notice to the Company that the loan is immediately due and payable.

The amount classified as capital lease payable above consists of office equipment requiring monthly lease payments of $357. For the year ended December 31, 2008 the Company has not made any payments on the capital lease payable.

(7) Liabilities subject to compromise (continued)

Future minimum lease payments under the capital lease are as follows:

2009	$	8,568
2010		4,284
		12,852
Less amounts representing interest		(1,666)
Total capital lease payable		11,186
Less current portion		8,568
Capital lease payable, net of current portion	$	2,618

The amount classified as subordinated related party debt above consists of a credit facility note and accrued interest with the managing member. The note bears interest at the three month LIBOR Rate plus eight hundred basis points (10.59% at December 31, 2008) and is collateralized by a deed of trust on the real estate of the Company. The revolving note requires quarterly interest only payments. The debt is subordinate to all asset based lending. The note matures in December of 2009. As defined in the note, accrued and unpaid interest is to be added to the outstanding principal balance. To date, the Company has made no interest payments on the note.

(8) Maintenance agreement

The Company entered into an agreement with the previous owner to maintain specific manufacturing equipment and tooling for a period of 14 years. The manufacturing equipment and tooling is used to produce parts to fulfill the outstanding warranty period for the previous owner. The agreement called for five equal annual payments from the previous owner in the amount of $200,000, commencing October 31, 2004. These payments were offset against a note payable. The Company is responsible for maintenance of the manufacturing equipment in full working order. At the end of the 14 years, the previous owner will transfer ownership of the manufacturing equipment to the Company.

Management has recorded the payments under the caption of "Accrued maintenance agreement" on the balance sheet. Expenses associated with the maintenance of the manufacturing equipment will be recorded as a reduction in the liability. Management will review the liability periodically to ensure anticipated expenses for maintaining the equipment do not exceed the accrued maintenance liability. Management does not expect to perform any significant maintenance under the agreement in the next 12 months.

(9) Operating leases

The Company has entered into operating leases for office equipment and land with monthly lease payments totaling approximately $1,000. Operating lease terms extend through September 2010, with an option to extend the land lease for and additional 10 years.

(9) Operating leases (continued)

Future minimum lease payments under operating lease arrangements for the years ending December 31 are as follows:

2009	$	11,424
2010		6,066
Total	$	17,490

For the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 rent expense under these leases totaled $6,256 and $35,136, respectively.

(10) Related party transactions

For the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 amounts paid for services to a related party totaled $0 and $93,016, respectively.

(11) Retirement plans

Effective January 1, 2007, the Company adopted a profit sharing plan that contains 401(k) employee deferral provisions. The plan covers all employees with six months of service who are 21 years of age or older. Employer contributions to the plan consist of 50 cents per hour worked up to a maximum of 2,080 hours and a match of 50% of employee contributions up to 6% of eligible compensation. Company contributions to the plan for the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 were $42,359 and $78,434, respectively.

(12) Commitments and contingencies

Under the Company's organizational documents, the Company's members, officers, employees and directors are indemnified against certain liabilities arising out of their performance of their duties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects any risk of loss to be remote.

(13) Concentrations of credit risk

Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents, and accounts receivable. The Company places cash in a single financial institution which at times could exceed the FDIC insured limit. To reduce the credit risk associated with cash and cash equivalents, the Company periodically reviews the financial condition of the financial institution. To reduce the credit risk associated with accounts receivable, the Company routinely reviews the funding mechanisms of municipal projects to protect the Company's interests.

NOTES TO FINANCIAL STATEMENTS

(14) Cash flow disclosures

For the year ended December 31, 2008 and the period October 15, 2003 (Date of Inception) to December 31, 2008 cash paid for interest expense was $310,523 and $1,751,909, respectively.

The Company had the following non-cash investing and financing activities for the year ended December 31, 2008 and for the period October 15, 2003 (Date of Inception) to December 31, 2008:

	Year ended December 31, 2008	Period Since October 15, 2003 (Inception) to December 31,2008
Acquisition of assets with long-term debt:		
Inventory	$ -	$ 1,000,000
Property, plant and equipment	-	3,115,754
License agreement	-	9,246
Loan fees	-	134,068
Purchase of equipment relating to capital lease.	-	17,098
Repayment of long-term debt with maintenance liability agreement.	200,000	1,000,000
Reclassification of accounts payable to liabilities subject to compromise due to petition for bankruptcy.	5,150,557	5,150,557
Reclassification of note payable to liabilities subject to compromise due to petition for bankruptcy.	3,065,687	3,065,687
Reclassification of subordinated related party debt to liabilities subject to compromise due to petition for bankruptcy.	29,353,389	29,353,389

MILLENNIUM TRANSIT SERVICES, LLC
(A Debtor-in-Possession
Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

(14) Cash flow disclosures (continued)

	Year ended December 31, 2008	Period Since October 15, 2003 (Inception) to December 31,2008
Reclassification of capital lease payable to liabilities subject to compromise due to petition for bankruptcy.	11,186	11,186
Cash paid for interest	$310,553	$1,751,909